



MESSAGE FROM THE MISSISSIPPI STATE TAX COMMISSION

Notice to Casino Patrons

Many of you have expressed a desire to know why you have been required to furnish the Mississippi Tax Commission with additional records evidencing the losses claimed on your 2000 Mississippi income tax returns. Over the past several years, the Tax Commission has experienced many problems with returns detailing gaming winnings and losses. In many instances, the returns were incomplete or contained fatal errors so that they could not be processed through our computer system. Mississippi laws require residents to report all income they earn for the year on their return. Non-residents are required to report total income received from both inside and outside Mississippi so that a ratio can be applied to determine the amount of exemption and the amount of itemized or standard deduction to which the taxpayer is entitled. A large number of the non-resident returns filed did not contain income earned outside Mississippi, and in many instances gambling wins in Mississippi casinos were not reported as Mississippi income by the taxpayers or their tax preparers.

The withholding of the tax on the gambling winnings was required to ensure the collection of the tax due the State of

Mississippi on the gambling winnings by the patrons, both residents and non-residents. An income tax return must be filed to report the income properly and determine the proper amount of tax due and any possible refund due.

Experience has shown that the average casino patron will have an income tax liability approximating 3% of his or her gross winnings. Although the casinos had withheld 5% of the reported winnings, most taxpayers were filing returns in such a way that they received all of their withholding back in a refund. Reviewing these returns put this agency on notice that the State of Mississippi was losing revenue by accepting such obviously erroneous returns.

In February 2001, we began reviewing returns which reported gambling wins and losses. Only wins supported by documents from the casino were being reported. Most smaller wins were not being reported as income on the returns. Also, as with any other loss, a gambling loss must be substantiated. The Commission requested taxpayers to furnish daily logs of gaming activity, copies of federal income tax returns and/or other documentation to substantiate all gambling wins and losses. If the documentation was determined to be inadequate, a portion of the loss was disallowed. All taxpayers were given an opportunity to file an amended return to report the additional income or substantiate any gaming losses claimed.



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Effective January 1, 2002, an amendment to the Mississippi income tax laws requires casinos to withhold a non-refundable income tax at the rate of 3% on gaming winnings that are required to be reported to the Internal Revenue Service without any subsequent credit for the tax paid. As an example, a patron with a slot win of \$1200 or more will have 3% of the win withheld as tax (as opposed to the 5% now being withheld) and will not be entitled to receive a refund of such tax by filing a Mississippi income tax return. In addition, gambling winnings include **amounts considered prizes, awards, comps, tournament winnings, or similar types of compensation**. A Mississippi resident should not report any of these gambling winnings as income or deduct any gambling losses on his resident income tax return. If a non-resident's only Mississippi income is from gaming winnings, the non-resident will not be required to file a Mississippi income tax return nor will he receive a refund for any Mississippi income taxes withheld.

The 3% tax that is withheld from your gambling winnings is considered a state income tax paid to Mississippi. The document provided by the casino is considered the return and therefore is proof that the tax was paid to Mississippi.